

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|--------------------------------------|---|---------------|
| APPLICATION FOR AN ADJUSTMENT OF |) | |
| RATES BY PHELPS GAS COMPANY PURSUANT |) | |
| TO THE ALTERNATIVE RATE ADJUSTMENT |) | CASE NO. 9515 |
| PROCEDURE FOR SMALL UTILITIES |) | |

O R D E R

IT IS ORDERED that:

1. The Response of Commission Staff to Comments of Phelps Gas Company Regarding the Staff Audit Report in Case No. 9515, attached hereto as Appendix A, shall be included as a part of the record in this proceeding.

Done at Frankfort, Kentucky, this 24th day of June, 1986.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Secretary

APPENDIX A
RESPONSE OF COMMISSION STAFF
TO COMMENTS OF PHELPS GAS COMPANY
REGARDING THE STAFF AUDIT REPORT
IN CASE NO. 9515

On May 20, 1986, the Commission staff filed into the record in this case a report related to an audit of the 1985 operations of Phelps Gas Company ("Phelps"). Following are Phelps' comments on that report and the staff's response to those comments:

1. Phelps' Comment: The audit is not complete and is inaccurate by its own admission and therefore, should not be used as a guide in determining rates (see page 6, lines 20-23).

Staff Response: The page and line numbers referenced by Phelps contain no such admission by the Commission staff. The referenced portion of the audit report is staff's indication that due to the limited scope of the audit, the most efficient method available was employed to derive the most correct depreciation expense obtainable. The method employed: the calculation of depreciation expense based upon the remaining balance and remaining useful life of each asset, is often used by the Commission for rate-making purposes; the staff maintains that it was an appropriate method to use in this instance.

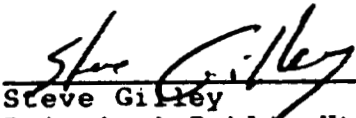
Due to the cumulative effects and the deficient record-keeping occurring since Phelps' inception in 1968, the derivation

of a depreciation expense exactly correct and in conformity with Commission requirements would be either impossible or so expensive and time-consuming to reconstruct in a limited audit as to be prohibitive.

2. Phelps' Comment: The audit is in error by stating "one-half of the building" is occupied by the Melvin Post Office (see page 7, lines 3-4).

Staff Response: The staff intended this phrase to be for illustrative purposes only and did not intend to make a finding as to the actual ratio of the area of the building occupied by the post office to the total area of the building. However, for the sake of clarity, the Commission staff hereby amends page 7, first paragraph, second sentence, to read, "Phelps and four other companies occupy one side of the building and the Melvin Post Office, the other."

Respectively Submitted,



Steve Gilley
Principal Public Utilities
Financial Analyst
PUBLIC SERVICE COMMISSION
Rates and Tariffs Division
Revenue Requirements Section